

LINCOLN COUNTY, WASHINGTON
January 1, 1995 Through December 31, 1995

Schedule Of Findings

1. The County Should Comply With Budget Laws And Regulations

During our review of the 1995 budget, we identified procedural weaknesses concerning the timeliness of amendments and extensions to budget appropriations.

The largest budget amendment was approved on December 20, 1995. It affected seven county funds and nine departments within the Current Expense Fund, and totaled \$908,592 or 88 percent of total annual adjustments. There was a budget extension to the Environmental Health Fund of \$3,800 approved on December 20 and an extension to the Equipment Rental and Revolving Fund of \$65,000 approved after year end.

The cause of these late amendments and extensions is the lack of management oversight as it relates to the status of the budgeted appropriations against the actual expenditures on a regular basis. Additionally, this large year-end budget amendment has been an ongoing practice intended to make all necessary corrections before the close of the fiscal year.

RCW 36.40.130. states that:

Expenditures made, liabilities incurred, or warrants issued in excess of any of the detailed budget appropriations or as revised by transfer . . . shall not be a liability of the county, but the official making or incurring such expenditures or issuing such warrants shall be liable therefor personally and upon his official bond. The county auditor shall issue no warrant and the county commissioners shall approve no claim for any expenditures in excess of the detailed budget appropriations

RCW 36.40.100 states in part:

The estimates of expenditures itemized and classified as required in RCW 36.40.040 and as finally fixed and adopted in detail by the board of county commissioners shall constitute the appropriations for the county for the ensuing fiscal year; and every county official shall be limited in the making of expenditures or the incurring of liabilities to the amount of the detailed appropriation items or classes respectively . . . upon a resolution formally adopted by the board at a regular or special meeting and entered upon the minutes, transfers or revisions within departments, or supplemental appropriations to the budget from unanticipated federal or state funds may be made

The effect of the procedural weaknesses is to circumvent the intent of the budgetary process which is to effectively manage the resources of the county. By failing to amend budgets in a timely manner, officials risk overexpending appropriations which is in direct violation of the above RCWs.

We recommend the county develop and implement procedures to ensure that all budget amendments and extensions be made in a timely manner.

2. The County Should Comply With Disclosure Requirements For Minutes Of The Board Of Commissioners Meetings

The minutes of the board of commissioners meetings did not include all approved expenditures. Additionally, there was no verbiage within the body of the minutes that commissioners have read and approved minutes of prior meetings as presented, nor were approving signatures evident.

This weakness was caused by a lack of understanding of the requirements for disclosure in the minutes which are the official record of commissioner's meetings.

The *Budgeting, Accounting and Reporting System* (BARS) manual, 1.3.3.25 provides distinct verbiage for presentation of expenditure approval as follows:

To indicate governing body approval for payment of claim vouchers and payroll, the following should be entered in the minutes:

The following voucher/warrants are approved for payment:		Total
(Funds)		
Voucher (warrant) numbers:	____ through ____	\$ ____
Payroll warrant numbers:	____ through ____	\$ ____

The effect of this weakness was to not adequately provide all necessary disclosures in a document of public record. This also led to a lack of authorization for the disbursement of the approved vouchers which were not included in the minutes.

We recommend the county implement procedures to ensure that all required items be disclosed in the minutes and that they be properly approved and signed.

3. The County's Internal Control Procedures Should Be Improved

Our audit identified many weaknesses in the internal controls over county assets. Examples of those weaknesses are:

District Court

- District Court does not deposit receipts in a timely manner. The court maintains unrecorded, undeposited receipts in an insecure area within the department. Once receipts are deposited, they are held in a checking account and transmitted to the treasurer at month end.
- Reports from the court system, which show adjustments to accounts receivable, are not independently reviewed or approved to ensure the propriety of each transaction.
- Review and reconciliation of the trust account is not being done on a regular basis.

County Road Department

- The Equipment Replacement and Revolving (ER&R) Fund does not have a general ledger in its accounting system. Without a general ledger, there is not adequate assurance that the revenues and expenditures of the fund are complete or that the assets, liabilities, and fund equity are in balance.
- Statements and reports prepared at the county level are not properly reviewed to ensure that they agree with departmental supporting documentation.

County Wide Departments

- Not all departments are depositing receipts with the county treasurer in a timely manner.
- Instances were noted where there was a lack of adequate supporting documentation for vouchers processed through the system or reimbursements of petty cash funds.
- There is a lack of management oversight for department accounting policies and procedures.

The county's decentralized organizational structure inhibits the development and operation of a uniform, effective system of accounting controls. The lack of management oversight, absence of supervisory review procedures, along with the need for additional training contributes to the internal control weaknesses noted above.

These internal control weaknesses have the potential to contribute to loss of revenues, inefficiency in daily operations, inaccurate reporting and inadequate safeguarding of the county's assets.

We recommend:

- District Court ensure all receipts are recorded when received and adjustment or exception reports be reviewed and approved by someone independent of the cashing function.
- District Court reconcile the trust account to the system and bank statements on a regular basis.

- The ER&R Fund incorporate a general ledger into its accounting system.
- The county road department review reports and statements prepared at the county level to ensure that they agree to departmental supporting documentation.
- All departments deposit daily with the county treasurer.
- All departments provide adequate supporting documentation for any claims against county funds.

We also recommend that management at the departmental level increase oversight and review procedures affecting accounting policies and procedures.

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Schedule Of Federal Findings

1. The County Should Integrate Grant Accounting Into Its General Accounting System

The county has not integrated all of its grant accounting into the county's general accounting system. The vast majority of the grants received by Lincoln County are operated within the Road Fund. Expenditures for county road construction are currently accounted for using a cost accounting system within the county engineers department. Accounting within this system identifies expenditures by road project but does not identify the application of grant funds. Summary information is transferred from the cost accounting system to the county's general accounting system. However, due to system incompatibility, complete grant project numbers cannot be transferred. Thus, the general accounting system is incapable of providing project identification.

The "Common Rule," the *Uniform Administrative Requirements for Grants and Cooperative Agreements With State and Local Governments*, Subpart C. Section_20,(b)(2) Accounting Records, states in part:

Grantees and Subgrantees must maintain records which adequately identify the source and application of funds provided for financial-assisted activities. These records must contain information pertaining to grant or subgrant awards and authorizations, obligations, unobligated balances, assets, liabilities, outlays or expenditures, and income

OMB Circular A-128, *Audits Of State And Local Governments*, paragraph 8.b(1) states in part:

In order to determine which major programs are to be tested for compliance, State and local governments shall identify in their accounts all Federal funds received and expended and the programs under which they were received

Lincoln County accounts for transactions and prepares its financial statements on the basis of accounting prescribed by Washington State statutes and the *Budgeting, Accounting, and Reporting System* (BARS) manual as prescribed by the State Auditor. According to BARS, Part 3, Chapter 5, Section A:

1. Grant accounting must be integrated with a municipality's general accounting records . . .
2. Grant accounting must provide for a segregation, by program/activity/function within each grant, of the following . . .
- d. Expenditures already disbursed . . .

f. Non-federal share of costs

Because of the lack of an integrated grant accounting system, we could not trace all expenditures reported on the Schedule of Financial Assistance directly to the county's general accounting system. However, all grant revenues are appropriately recorded; thus, we are reasonably certain that the Schedule of Financial Assistance lists all amounts and sources of grants received by the county.

We recommend county officials integrate all grant accounting with its financial accounting system.